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## Equity Investments Program

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### Examination Objectives

To determine whether the savings association is correctly categorizing and valuing equity investments.

To evaluate the quality of equity investments and their effect on the financial condition and performance of the savings association.

To determine whether the savings association makes equity investments in accordance with applicable laws and regulations.

### Examination Procedures

#### Level I

#### Wkp. Ref.

1. Obtain a list of the savings association's equity investments and review related scoping materials. *Note:* Evaluate the savings association's investments in subordinate organizations under separate examination procedures contained in Section 730. As necessary, obtain information relevant to this program from persons reviewing subordinate organizations.

Verify that the savings association properly categorizes equity investments. Ensure that equity investments comply with applicable statutory, regulatory or policy standards (for example, investment limits, activities restrictions.)

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2. Review the preceding report of examination and all equity investment-related exceptions noted and determine if management has taken appropriate corrective action.

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3. Identify an equity investment or any concentration of equity investments that could have a significant effect on the savings association's overall financial condition taking into consideration the adequacy of valuations and internal asset classifications.
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**Exam Date:** \_\_\_\_\_

**Prepared By:** \_\_\_\_\_

**Reviewed By:** \_\_\_\_\_

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| 4.    | Assess the adequacy of the savings association's equity investment policies with consideration given to the following areas:   |  |
|       | <ul style="list-style-type: none"><li>• The acquisition and monitoring of equity investments, for example, risk/return analysis and objectives, appraisal policy, due diligence performed, tracking relevant economic indicators, projections versus investment performance.</li><li>• Establish carrying values consistent with GAAP, the savings association internal asset classification policy, and appropriate valuation allowances.</li><li>• Accounting for equity investments on savings association financial reports; approaches for identifying and controlling risk for various categories of equity investments.</li><li>• Board of director's oversight. This includes the frequency of the review of policies and procedures. Does the board of directors require approval for equity investments that represent a certain percentage of capital, involve an affiliate or insider or present a potential conflict of interest?</li><li>• Compliance with applicable statutory, regulatory or policy standards.</li></ul> |  |
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| 5.    | For any REI, verify that management conducted an independent and complete evaluation of the project and the reputation of individuals involved, (for example, partners, members, developers), as well as their experience, expertise, and financial capabilities. (Do partners have the capacity to meet financial and other obligations? Can personal guarantees be enforced?)  |  |
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| 6.    | Assess the adequacy of management's expertise in relation to the savings association equity investment portfolio and related goals and objectives.   |  |
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| 7.    | Analyze the savings association's future equity investment plans in relation to its business plan and overall condition.   |  |
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8. For pass-through investments, confirm that the savings association appropriately limits the amount of its investment. Review a savings association's obligations stated in contracts, agreements, and other legally binding arrangements to ensure that the association's potential liability is limited to the amount of its investment. Provisions in such contracts, agreements, or arrangements would include the sharing of profits and losses among investors and additional funding requirements.

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9. Confirm that the savings association properly reports equity investments when calculating regulatory capital. (Refer to Handbook Section 120, Capital Adequacy, and the Thrift Financial Report Instructions for guidance.)

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10. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.
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### Level II

11. Identify any equity investments that involve a potential conflict of interest or circumstances in which any affiliate or insider (savings association officer, director, or major shareholder) has benefited directly or indirectly from the savings association's equity investment.

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12. If weaknesses exist within internal accounting procedures, reconcile the savings association's current reported equity investments to an audited financial statement.

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13. If REI are material, perform any appropriate and relevant procedures detailed in Handbook Section 740, Real Estate Development.
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14. Ensure that the examination meets the Objectives of this Handbook Section. State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages. Update the continuing examination file, if applicable.

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### Examiner's Summary, Recommendations, and Comments

**Exam Date:** \_\_\_\_\_  
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